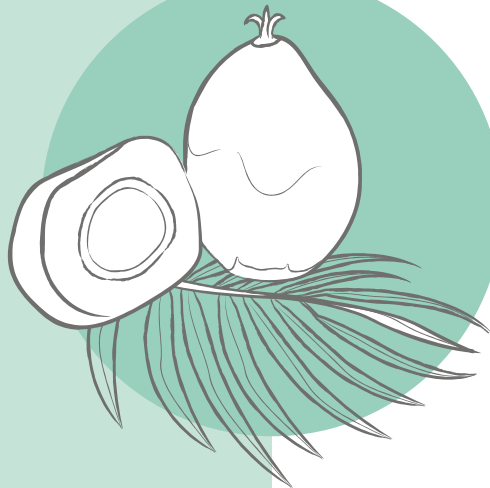
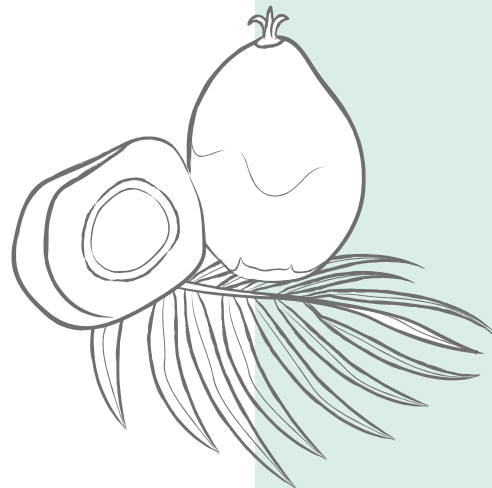


GUIDELINE FOR

PALM OIL PRODUCTS



We are committed to more sustainable palm oil cultivation and pursue the goal of improving the social, ecological and economic conditions in the production countries. This is why our purchasing activities focus on more sustainable palm oil products in order to influence the development of a more sustainable palm oil cultivation.



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I. UNDERSTANDING AND SCOPE

REWE Group's customers expect and should be able to trust that REWE Group, as a trading company, is aware of its responsibility in the supply chains of its private labels and addresses the social and ecological effects. In its "[Guideline for Sustainable Business Practices](#)", REWE Group acknowledges this responsibility. The values described therein form the foundation for the responsible actions of the company. REWE Group has specified the "Approach for responsible supply chains" in order to identify, evaluate and process the social and ecological effects.

Goal and Scope of the Guideline

With this updated new edition¹, REWE Group aims at raising awareness of its employees and partners in the palm oil supply chain and points out requirements and measures with which the company contributes to the improvement of the social, ecological and economic conditions in palm oil cultivation.

The scope comprises all palm (kernel) oil products² of REWE Group's private labels that are sold at REWE, PENNY, BILLA, MERKUR, BIPA and ADEG in Germany and Austria. The guideline defines a binding framework for REWE Group's actions and the business relationships with its contractual partners.

The specified requirements and goals set out in the guideline are consistently checked. New measures and goals are agreed upon if necessary. In addition, the guideline is updated on the basis of future trends and developments.

¹ The present fourth version of the "REWE Group Guideline for Palm Oil and Palm Kernel Oil Products" replaces the third version of August 2013

² In the following sections, the term palm oil refers to palm oil as well as to palm kernel oil and its derivatives and fractions.

Reporting and Communication

REWE Group reports regularly and publicly on the progress in the implementation of the measures and the attainment of the targets. This is done in press releases, via the REWE Group website or the sustainability report of the Group. REWE Group is convinced that transparency and the provision of comprehensive information are important components of successful sustainability management.

II. ISSUES IN THE SUPPLY CHAIN

In recent years, palm oil production has continuously risen and has nearly tripled since 2002/03 from just under 27 million tonnes to approx. 75 million tonnes in 2020/21 (Statista 2021) - for instance, palm oil can be found in confectioneries and convenience food, cosmetics, feedstuffs, chemicals, cleaning and washing detergents. One reason for the significant increase is the high profitability ratio of palm kernel and/or palm oil (Knoke & Inkermann 2015).

Palm oil is extracted from the pulp of oil fruits. It is produced through pressing of fruits and subsequently processed in refineries for further use. Palm oil is used in a broad variety of foodstuff. The palm kernel oil as incurring by-product in the processing is extracted from kernels of oil fruits and is mainly used in the chemical industry, cosmetics, cleaning agent and in the confectionery industry (Bundesvereinigung der Deutschen Ernährungsindustrie e. V. 2016). Furthermore, through extensive chemical processes, palm oil and palm kernel oil can be converted into palm (kernel) oil derivatives. For example, these are used as surfactants or emulsifiers in cosmetics and cleaning agents (Forum Nachhaltiges Palmöl n. d.).

87 per cent of palm oil is produced in Indonesia and Malaysia, the remaining 13 per cent account for Latin America (5 per cent), sub-Saharan Africa (4 per cent), Asia (3 per cent) and Oceania (1 per cent) (Phung & Utlu 2020).

Around 40 per cent of the total palm oil plantations are cultivated by smallholders in Indonesia and Malaysia. In Africa, smallholders produce approx. 90 per cent of palm oil (Barthel et al. 2018).

Palm oil is facing complex social and ecological challenges. This is the reason why comprehensive measures were taken in the last decade in order to counteract these challenges. The following section illustrates in parts the most crucial issues, in particular with regard to cultivation of oil palms:

2.1 People

Violation of Human Rights and precarious Working Conditions

Poor working conditions prevail on many palm oil plantations. These include discrimination - i.e. women are exempted from permanent contracts - unsafe workplaces and insufficient holiday entitlements. Moreover, wages are often below the minimum wages and are frequently linked to unacceptable harvesting rates. If the rates cannot be achieved, the plantation operators deduct the value of the missing harvest from the wages (Phung & Utlu 2020).

In addition, in Indonesia and Malaysia the risk of forced labour was detected - indicators for this are coercive measures such as threats, violence, no protection from the government, debt bondage, high recruiting fees and compulsory overtime (Fair Labor Association 2018). Child labour is also widespread (Barthel et al. 2018).

Land Conflicts

According to a study conducted by the German Institute for Human Rights (Deutsches Institut für Menschenrechte) (2020) conflicts with regard to land and land use rights are among the most frequent documented problems in the palm oil sector. In particular, indigenous populations as well as settled farmers are affected by de facto expropriation through land theft as well as from violent and economical eviction. As a consequence to many cases, they lose their food and income sources and are frequently being deprived of their livelihoods.

According to multiple reports, land owners who lease or transfer their land to plantation operators are intentionally deceived; in some cases, they do not receive the promised compensation payment (Phung & Utlu 2020).

2.2 Environment

Deforestation and Loss of Biodiversity

Deforestation constitutes the major ecological problem in the palm oil sector (Barthel et al. 2018). Oil palms are very climate-sensitive and can only be cultivated on a small belt around the equator. Due to the large oil palm demands for new plantations, palm oil cultivation is the main reason for fire clearance and deforestation of the tropical rain forest mainly in Indonesia and Malaysia (Barthel et al. 2018).

Deforestation virtually destroys all ecosystems with its unique flora and fauna. Through deforestation many endangered animals are losing their habitat - for example Sumatran tigers and orang-utans (Russel 2018).

Climate-damaging Emissions and Air Pollution

Rain forests and peat soils are huge carbon sinks. Through fire clearance, carbon dioxide is released into the atmosphere, which accelerates global warming (Barthel et al. 2018). If the rain forest trees are subsequently replaced by oil palms, these feature less than 20 per cent of the biomass surface of rain forest trees. As a result thereof, they absorb less carbon dioxide from the atmosphere (Russel 2018).



In palm oil production, greenhouse gases are also being released: Through the comprehensive treatment of wastewater from palm oil mills, huge amounts of methane are released (Barthel et al. 2018).

III. REQUIREMENTS AND MEASURES

Requirements

REWE Group commits itself to purchasing certified palm oil for all private label products containing palm oil according to the following requirements:

- pure refined and unrefined palm oil:
Since 2016, 100 per cent purchase in line with supply chain model³ “Segregation” or “Identity Preserved”
- pure refined and unrefined palm kernel oil: Since 2018, 100 per cent purchase in line with supply chain model “Segregation”
- fractions and derivatives (irrespective of whether they are based on palm oil or palm kernel oil): Since 2020, 100 per cent purchase in line with supply chain model “mass balancing”

The use of certified palm oil is governed by the certification systems RSPO, ISCC+ and Rainforest Alliance, which have been acknowledged by the Sustainable Palm Oil Forum. For the private labels of REWE Group, the aim is to predominantly use RSPO-certified palm oil products.

The certification systems recognised by REWE Group cover the following socio- and ecological requirements for producers:

³We distinguish between three acceptable supply chain models:

Identity Preserved: The palm oil originates from a single certified mill and its certified supply base; this enables transparent traceability right from the mill to the supplying certified plantations.

Segregation: The entire palm oil used is certified, originates however from different plantations and mills; the precise traceability from the origin plantation of the palm oil is not required for certification.

Mass Balance mixes certified and non-certified palm oil, therefore, traceability is precluded.

People

- Compliance with the statutory rules, i.e. land use and property rights as well as minimum wages
- No forced labour
- No child labour, instead educational offers for children living on plantations
- Involvement and promotion of smallholders

Environment

- No clearing of primary forests and ecologically valuable forest areas for plantations
- Conservation of endangered animals and plant species on the plantation,
- Conservation of water, soils and air (this means: no burning of forest)
- Prohibition of cultivation of new plantations on peat soils of any depth as well as on surfaces with a high carbon concentration (HCS)
- Use of hazardous pesticides (World Health Organisation hazard classes 1A or 1B or listed as such in the Rotterdam and Stockholm Conventions as well as Paraquat) with few exemptions is prohibited

Measures

Membership in the Forum on Sustainable Palm Oil (FONAP)

In 2013, REWE Group has co-founded the Forum on Sustainable Palm Oil (FONAP). The members of the multi stakeholder initiative undertake to significantly increase the proportion of sustainably produced palm oil, while at the same time FONAP and its members focus on improving existing certifications and standards.



Substitution of palm oil through alternative vegetable oils

A study conducted by the WWF Germany (2016) came to the conclusion that the substitution of palm oil through other vegetable oils, which grow in the same or ecologically similar sensitive regions (e.g. from coconut or soy), does not solve the aforementioned problems. Rather, they are shifted or even intensified, because these oil plants require larger cultivation areas. Vegetable oil cultivated in Europe (for instance from canola and sunflower) require larger cultivation areas but grow in less ecological sensitive regions.

In conclusion, we regard a complete substitution of palm oil through other vegetable oils as not expedient. However, we consider a possible partial substitution of palm oil through other vegetable oils as non-critical, if palm oil is substituted through oils cultivated in Europe (e.g. from canola, sunflower or soy).

Substitution of vegetable oils which grow in the same or ecologically similar sensitive regions (i.e. from coconut) should be avoided, if possible. If the use of tropical oils deems necessary (e.g. for sensory or technological reasons), this should be certified in accordance with Rainforest Alliance or Fairtrade, if available.

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The dialogue on the topic of palm oil is of major importance to us. Please do not hesitate to contact us with suggestions and questions at: nachhaltigkeit@rewe-group.com

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